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FISCAL IMPACT STATEMENT

LS 7471

BILL NUMBER: SB 568

NOTE PREPARED: Jan 27, 2013

BILL AMENDED:

SUBJECT: Income Tax Sales Factor.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR:

BILL STATUS: As Introduced

**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: The bill provides that sales to a purchaser that is outside the United States is not to be used in apportioning income of a taxpayer to this state when the taxpayer is not subject to being taxed by the jurisdiction of the purchaser (eliminates the "throwback rule" for income from foreign exports).

Effective Date: January 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* This bill will result in an increase in administrative costs for the DOR by requiring the DOR to revise corporate adjusted gross income (AGI) tax forms, instructions, and computer programs to incorporate the changes proposed in the bill. It is estimated that DOR's current level of resources should be sufficient to implement the changes.

Explanation of State Revenues: The bill is expected to reduce corporate AGI tax collections, however, the reduction is currently indeterminable. The provisions in the bill would reduce or eliminate tax liabilities for a corporation that:

- (1) would otherwise have a corporate AGI tax liability under current law;
- (2) ships property from an office, a store, a warehouse, a factory, or other place of storage in Indiana to a purchaser located outside of the U. S.; and
- (3) is not subject to tax in the jurisdiction outside the U. S. where the purchaser is located.

The bill is effective January 1, 2014, and the impact of the bill could begin in FY 2014, if taxpayers adjust quarterly estimated payments. The full year impact from the bill would begin in FY 2015. All corporate AGI tax collections are deposited in the state General Fund. The fiscal note will be updated as more data becomes

available.

Background: Indiana law requires that a multistate corporation use sales as an apportionment factor to apportion their worldwide income to Indiana. The sales factor is a fraction where the numerator is the taxpayer's total sales in Indiana during the tax year and the denominator is the taxpayer's total sales everywhere during the tax year.

A taxpayer's sales are assigned to Indiana's sales factor numerator if: (1) the property sold is delivered or shipped to Indiana; (2) the property is sold to the U.S. government and the property is shipped from Indiana; or (3) the property sold is delivered or shipped to a destination outside of Indiana and the seller is not subject to tax in the destination state or country. The sales described in (3) are assigned to Indiana under what is called the "throwback rule". The bill removes the throwback rule as it applies to sales to purchasers outside of the U. S. as described in (3).

The U. S. Census Bureau reports that in CY 2011, \$32.3 B in exports from U. S. originated from Indiana. It is estimated that a small share of that total is exported by Indiana corporate taxpayers that are not subject to tax in the country of destination and would be covered under this bill. This bill would potentially reduce tax liabilities for those taxpayers.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: United States Census Bureau, State Exports Data,
<http://www.census.gov/foreign-trade/statistics/state/data/in.html>.

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